



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

## **Financial Statements Audit Report**

# **City of Kent Special Events Center Public Facilities District**

**King County**

**For the period January 1, 2013 through December 31, 2013**

**Published January 26, 2015**

**Report No. 1013449**





## Washington State Auditor Troy Kelley

January 26, 2015

Board of Appointed Representatives  
City of Kent Special Events Center Public Facilities District  
Kent, Washington

### Report on Financial Statements

Please find attached our report on the City of Kent Special Events Center Public Facilities District's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### City of Kent Special Events Center Public Facilities District King County January 1, 2013 through December 31, 2013

**2013-001    The Kent Special Events Public Facility District financial statements were not fairly presented in accordance with accounting principles with regards to its loan payable and the loan proceeds.**

#### *Background*

The Kent Special Events Public Facility District (PFD) was formed by the City of Kent in August 2007. The purpose of PFD is to provide the financing necessary to construct an events center in the City of Kent. The PFD provided the financing for the design and construction of the special events center, known as the ShoWare Center. The District and the City entered into a contingent loan and support agreement. Under the terms of the agreement, the City has irrevocably pledged its full faith, credit and resources for making contingent loan payments to the PFD as required in order for the PFD to meet debt service requirements on the bonds to the extent that PFD sales tax revenues are not sufficient for that purpose.

Our audit identified a misstatement in the District's financial statements which indicates a deficiency in internal controls.

#### *Description of Condition*

During our audit we identified the following significant deficiency:

We reviewed payments the District received from the City to meet its debt service payments on the bonds. The District recorded the payments as intergovernmental revenues. However, the agreement between the District and the City states the payments are required to be recorded as a loan to the PFD. The District did not follow the terms and conditions of the contingent loan agreement between the PFD and the City of Kent regarding financing for the PFD.

Generally accepted accounting principles (GAAP) require loan proceeds be reported as a liability. Although District management was aware of the reporting requirements, it chose not to follow GAAP.

### ***Cause of Condition***

Management recorded the payment received from the City as an intergovernmental revenue instead of a loan. District management did not record the loan payable since it did not expect the City to seek repayment.

### ***Effect of Condition***

The District did not record payments received from the City as a loan which caused:

- Intergovernmental revenues to be overstated by \$3,104,475 and liabilities understated by the same amount for 2013.
- Intergovernmental notes payable to be understated cumulatively for the years 2009 through 2012 by \$12,359,152 and Net Position is overstated by the same amount.

Therefore the aggregate misstatement of intergovernmental notes payable and net position is \$15,463,627 and \$3,104,475 for intergovernmental revenues. The original financial statements reported total liabilities of \$61,120,339; the note payable excluded represents twenty-five percent of the total liabilities reported. This is a material misstatement.

Subsequently the District corrected its financial statements.

### ***Recommendation***

We recommend the District pursue additional technical guidance when unsure of accounting treatment for its financial transactions.

Further, if the District and City agree that repayment will not be sought, we recommend the parties work together to amend the agreement to reflect that understanding.

### ***District's Response***

*The District disagrees with SAO's position on the proper accounting treatment of the \$15 million in cumulative payments made by the City of Kent under the contingent loan and support agreement (agreement). However, in order to attain an unqualified opinion, the District has followed SAO's directive and changed the 2013 District Financial Report to reflect these payments as a long-term loan payable to the City.*

*The District, for reasons listed below, continues to believe the prior treatment of these cumulative payments is the proper accounting treatment under Accounting Principles Generally Accepted in the United States of America (GAAP).*

1) *RELATIONSHIP: The Kent Special Events Public Facility District and the City of Kent share a very close relationship. The District's bylaws state that the City of Kent Finance Director also serves as the District Treasurer. Additionally, while the District's Board differs from the City Council, the District's financials are included as a discretely presented component unit in the City's CAFR. The City received an unqualified opinion for its presentation of the District's financials in the City's 2013 CAFR. Furthermore, the State Auditor's Office did not mention the lack of a liability payable account in the District's financials as presented in the City's annual report which, according to the Washington State Auditor's Office Independent Auditor's Report for the City of Kent in 2013 included our discretely presented component units.*

2) *ACCOUNTING PRINCIPLES: Although the District acknowledges that the agreement does call for payments made by the City under the agreement to be treated as loans, under GAAP accountants are to emphasize economic substance over legal form. Therefore "loans" made without a reasonable expectation of repayment are not really a loan, but are a subsidy. District revenues are lower than projected when the agreement was originally signed in 2008. The District will not, for the foreseeable future, earn sufficient revenues to fully cover the annual District bond debt service payments, let alone repay the City for past payments under the agreement. Due to the close relationship between the District and the City, the District has been fully aware that the City currently does not have a reasonable expectation of repayment from the District for City payments under the agreement. Under these circumstances, the District believes it is misleading for these transactions to be treated as loans between the City and the District.*

3) *CONSISTENCY: The consistency principal requires accountants to be consistent from one accounting period to another in applying accounting principles, methods, practices, and procedures. The District's treatment of our financial statements has not changed since 2008, the first year of financial activity for the District. Additionally, there has been no change in the contractual relationship between the District and the City. Beginning in 2009, the first year the District received a subsidy from the City, and in each year subsequent, the District has not reported a loan payable and the City has not reported a loan receivable. The Washington State Auditor's Office has performed an audit on the District financials each year and consistently determined that the District's financial statements were fairly presented and as such were given an unqualified*

*audit opinion. As nothing has changed, the District is finding itself in a position where it is necessary for the District to react to an inconsistent audit determination by the Washington State Auditor's Office for the Districts 2013 financials.*

### ***Auditor's Remarks***

We appreciate the District's cooperation and willingness to take corrective action to address the financial reporting error identified as a result of our audit.

We provide the following points of clarification to the District's response:

- 1) When the Kent Special Events Public Facility District is reported as a component unit in the City of Kent's financial statements, the above described reporting error was not material to the fair presentation of the City's financial statements and therefore did not require correction or an audit exception.
- 2) The District could not provide any documentation to support the legal substance of the agreement had changed. Therefore, the District should recognize the liability by reporting the loan in its financial statements.
- 3) It is the District's responsibility to ensure accurate financial reporting of its accounting transactions. Our responsibility is to express an opinion on the financial statements based on our audit. In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead the areas examined were those representing the highest risk of misstatement.

### ***Applicable Laws and Regulations***

*Government Auditing Standards*, July 2007 Revision – Section 5.11 provides that auditors should report material weaknesses and significant deficiencies in internal control.

The American Institute of Certified Public Accountants, Statement on Auditing Standards No. 115 defines significant deficiencies and material weaknesses as follows:

- a. Significant deficiency: A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
- b. Material weakness: A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a

reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Governmental Accounting Standards Board Statement No. 34 states in part:

Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.

61. Resource flows between the primary government and blended component units should be reclassified in accordance with the provisions of paragraph 112 as internal activity in the financial statements of the reporting entity. Resource flows (except those that affect the balance sheet only, such as loans and repayments) between a primary government and its discretely presented component units should be reported as if they were external transactions—that is, as revenues and expenses. However, amounts payable and receivable between the primary government and its discretely presented component units or those components should be reported on a separate line.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**City of Kent Special Events Center Public Facilities District  
King County  
January 1, 2013 through December 31, 2013**

Board of Appointed Representatives  
City of Kent Special Events Center Public Facilities District  
Kent, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the City of Kent Special Events Center Public Facilities District, King County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 9, 2015. As discussed in Note 1 to the financial statements, during the year ended December 31, 2013, the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of District's financial statements will not be prevented, or

detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2013-001, that we consider to be significant deficiencies.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **DISTRICT'S RESPONSE TO FINDINGS**

The District's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It

also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

January 9, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Kent Special Events Center Public Facilities District King County January 1, 2013 through December 31, 2013

Board of Appointed Representatives  
City of Kent Special Events Center Public Facilities District  
Kent, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Kent Special Events Center Public Facilities District, King County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 15.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Kent Special Events Center Public Facilities District, as of December 31, 2013, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis**

As discussed in Note 1 to the financial statements, in 2013, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## **Other Matters**

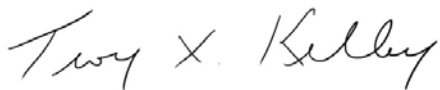
### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 16 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's

responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

January 9, 2015

## **FINANCIAL SECTION**

**City of Kent Special Events Center Public Facilities District  
King County  
January 1, 2013 through December 31, 2013**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2013

### **BASIC FINANCIAL STATEMENTS**

Governmental Funds Balance Sheet/Statement of Net Position – 2013

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund  
Balances/Statement of Activities – 2013

General Fund Statement of Revenues, Expenditures and Changes in Fund Balances –  
Budget and Actual – 2013

Notes to Financial Statements – 2013

## **INTRODUCTION:**

The City of Kent formed the City of Kent Special Events Center Public Facilities District (PFD) in August 2007. The corporation was established pursuant to State legislation and codified under RCW 35.57, with the powers and authority set forth by law. The purpose of the PFD is to provide the financing necessary to construct an events center in the City of Kent. The PFD provided the financing for the design and construction of the special events center, known as ShoWare Center. Although the PFD provided much of the funding for the center, the asset is owned by the City of Kent per the interlocal agreement between the PFD and the City.

This discussion and analysis of the PFD's financial performance provides an overview of the PFD's financial activities for the fiscal year ended December 31, 2013. The intent of this discussion and analysis is to look at the PFD's financial performance as a whole. Readers should also review the notes and basic financial statements to enhance their understanding of the PFD's financial performance. The PFD implemented GASB Statement No. 65 in fiscal year 2013, as well as a change in the treatment of notes payable to the City, causing a prior period adjustment. Fiscal 2012 balances have been restated, as applicable, in this discussion.

## **FINANCIAL HIGHLIGHTS:**

- Net position (\$75,363,662) decreased by \$2,372,434 or 3.2 percent from 2012 restated levels.
- Long-term bonded debt of \$61,120,339 decreased by \$769,735 or 1.2 percent from 2012 levels. The key factor impacting the decrease was the annual debt service payments.
- Long-term notes payable of \$15,463,627 increased \$3,104,475 or 25.1 percent with the 2013 payment from the City under the Contingent Loan and Support Agreement.
- Sales tax revenues of \$714,360 increased by \$36,423 or 5.4 percent compared to amounts collected in 2012.

## **OVERVIEW OF THE FINANCIAL STATEMENTS:**

This discussion and analysis is intended to serve as an introduction to the City of Kent Special Events Center Public Facilities District (PFD) basic financial statements. The PFD's basic financial statements are comprised of governmental funds: (1) Balance Sheet/Statement of Net Position, (2) Revenues, Expenditures and Changes in Fund Balance/Statement of Activities and (3) notes to the financial statements.

The government-wide financial statements and fund financial statements have been combined in the basic financial statements segregated in separate columns and are accompanied by a reconciliation between the statements (see the "Adjustments" column for details).

- **Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the PFD's finances in a manner similar to a private-sector business. The government-wide financial statements include 1) Statement of Net Position and 2) Statement of Activities.



- **Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The PFD uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the PFD are major governmental funds for the purposes of this financial report. The focus of these funds is on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the PFD's near-term financing requirements. The fund financial statements include 1) Balance Sheet and 2) Revenues, Expenditures and Changes in Fund Balance.

**Balance Sheet/Statement of Net Position** - This statement presents a snap-shot view of the assets of the PFD, the liabilities it owes and the net difference or net position. It focuses on the resources available for future operations.

**Revenues, Expenditures and Changes in Fund Balance/Statement of Activities** - This statement presents all revenues and expenditure of the PFD during the fiscal year, including other sources and uses.

**Notes to the financial statements** - The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements and should be read in conjunction with the financial statements.

#### **GOVERNMENT-WIDE FINANCIAL ANALYSIS:**

The PFD's overall financial position decreased in 2013 by \$2,372,434 or 3.2 percent from 2012 levels to a deficit of \$75,563,662 as compared to a restated deficit of \$73,191,228. This decrease in fund balance primarily reflects the increase in notes payable of \$3,104,475 offset by the reduction in outstanding bonded debt of \$736,735.

<b>City of Kent's Special Events Center Public Facilities District Statement of Net Position</b>		
	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
Current and other assets	\$ 1,020,304	\$ 1,057,998
Total Assets	1,020,304	1,057,998
<b>Liabilities</b>		
Long-term debt	76,583,966	74,249,226
Total Liabilities	76,583,966	74,249,226
<b>Net Position</b>		
Unrestricted	(75,563,662)	(73,191,228)
Total Net Position	\$(75,563,662)	\$(73,191,228)

Highlights from the Statement of Net Position:

- Taxes receivables (\$129,011) increased by \$5,097 or 4.1%. For the fiscal year, the PFD averaged a 5.4% increase over the previous year for sales tax revenues.
- Outstanding long-term bonded debt was reduced by \$736,735 primarily as the result of the principal payment made during 2013.
- Notes payable increased by \$3,104,475 or 25.1 percent in 2013 with the City's 2013 support under the contingent loan and support agreement.

**City of Kent Special Events Center  
Public Facilities District (PFD)**

**Management's Discussion and Analysis  
For the Year Ended December 31, 2013**

- The PFD's deficit net position is the result of the agreement established between the PFD and the City of Kent. The PFD was established to provide the financing necessary to construct an events center in the City of Kent. The PFD issued bonds to fund the design and construction of the special events center, known as ShoWare Center. Although the PFD provided much of the funding for the construction of the center, the asset is owned by the City of Kent. Since the asset resides within the financials of the City of Kent, but the long-term debt belongs to the PFD, the PFD will likely show a deficit net position throughout the life of the bonds. The last of the bonds will mature in December 2037.

The following table details the changes in net position.

<b>City of Kent's Special Events Center Public Facilities District Statement of Activities</b>		
	<b>2013</b>	<b>2012</b>
<b>Revenues</b>		
Sales tax	\$ 714,360	\$ 677,937
Investment earnings	301	562
Total Assets	714,661	678,499
<b>Expenses</b>		
Other services and charges	-	1,505
Interest expense	3,087,095	3,123,539
Total Liabilities	3,087,095	3,125,044
Increase in net position	(2,372,434)	61,019
Net Position – January 1	(60,394,797)	(60,455,816)
Prior Period Adjustment	(12,796,431)	-
Restated Net Position – January 1	(73,191,228)	-
Net Position – December 31	\$(75,563,662)	\$(60,394,797)

Overall, the PFD saw a decrease in net position of \$2,372,434. Key highlights:

- Sales tax revenue (\$714,360) increased by \$36,423 or 5.4 percent compared to the previous year as the result of the improving economy.
- Interest expense (\$3,087,095) decreased by \$36,444 or 1.2 percent as compared to 2012 reflecting the reduction of outstanding bonded debt.

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS:**

The focus of the governmental funds is to provide information on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing the PFD's near-term financing requirements.

At the end of the current fiscal year, the PFD's governmental funds reported combined ending fund balances of \$130,697, an increase of \$6,708 from the previous year.

The *General Fund* is the chief operating fund of the PFD. At the end of the current fiscal year, fund balance of the General Fund was \$130,697 representing a \$6,708 or 5.4 percent increase from 2012. The primary revenue sources for the general fund are sales tax revenues and interest income. Sales taxes for 2013 were \$714,360, an increase of \$36,423 or 5.4 percent from 2012. Interest income for 2013 was \$301, which represented a decrease of \$261 or 46.4 percent from 2012.

The *Debt Service Fund* is used to account for payment of principal and interest of long-term debt. Transfers from the PFD's General Fund along with loans from the City provide the financing source to cover such debt. During 2013, the PFD paid \$730,000 toward principal and \$3,082,428 for interest expense for debt service.

**LONG-TERM DEBT:**

At the end of the current fiscal year, the PFD had total net bonded debt outstanding of \$61,120,339 and \$15,463,627 notes payable to the City. Under a Contingent Loan and Support Agreement, the City has irrevocably pledged its full faith, credit and resources for making the City contingent loan payments to the PFD as required in order for the PFD to meet their debt service requirements on the bonds, to the extent that PFD sales tax revenues are not sufficient for that purpose.

City of Kent's Special Events Center Public Facilities District Outstanding Debt December 31		
	2013	2012
Net sales tax bonds	\$ 54,100,339	\$ 54,140,047
Revenue bonds	7,020,000	7,750,000
Notes payable	15,463,627	12,359,152
Total bonded debt	\$ 76,583,966	\$ 74,249,199

The District's total bonded debt decreased by \$769,708 or 1.2 percent during the current fiscal year. The required debt service payments were made during 2013. The notes payable to the City increased by \$3,104,475.

The PFD carries an "AA-" rating from Standard and Poor's as of November 30, 2011 and an "A1" rating from Moody's as of February 6, 2012.

Additional information on the PFD's long-term debt can be found in Note 5 of this report.

**ECONOMIC OUTLOOK:**

The PFD continues to be faced with many of the challenges of the slow recovery to the recent recession. Its primary revenue source is sales tax revenue which, although slowly recovering, continues to lag from the pre-recession levels. Per the PFD's intergovernmental agreement with the City, it receives loans from the City to help cover its debt service should it not receive enough in sales tax revenue during the year. Part of that funding comes from the proceeds of the ShoWare Center operations. With the slow economic recovery, the ShoWare Center continues to not meet expectations as far as the number of events and the number of attendees at such events. Because of this, the PFD turns to the general operations of the City of Kent to help cover the annual debt service costs. During 2013, the PFD received \$3,104,475 from the City. For 2014, the City has budgeted accordingly to reflect the needs of the PFD to cover such costs.

**REQUESTS FOR INFORMATION:**

This financial report is designed to provide a general overview of the City of Kent Special Events Center Public Facilities District (PFD) finances. Questions concerning the information provided in this report may be addressed to:

City of Kent Special Events Center, Public Facilities District  
c/o Finance Department  
220 Fourth Avenue South  
Kent, WA 98032

CITY OF KENT SPECIAL EVENTS CENTER PFD  
GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET POSITION  
December 31, 2013

	General Fund	Debt Service Fund	Balance Sheet	Adjustments (note 2)	Statement of Net Position
<b>ASSETS</b>					
Restricted assets:					
Cash & equity in pooled investments (Note 3)	\$ 1,686	\$ -	\$ 1,686	\$ -	\$ 1,686
Receivables (net of allowance for estimated uncollectables (Note 4)					
Other taxes receivable	129,011	-	129,011	-	129,011
Prepaid Insurance	-	-	-		
Current				44,402	44,402
Long-term				845,205	845,205
<b>TOTAL ASSETS</b>	<u>130,697</u>	<u>-</u>	<u>130,697</u>	<u>889,607</u>	<u>1,020,304</u>
<b>LIABILITIES</b>					
Due within one year:					
Revenue bonds payable, current portion (Note 5)	-	-	-	745,000	745,000
Due in more than one year:					
General obligation bonds payable, noncurrent portion (Note 5)	-	-	-	54,100,339	54,100,339
Revenue bonds payable, noncurrent portion (net of unamortized discount (Note 5)	-	-	-	6,275,000	6,275,000
Notes Payable	-	-	-	15,463,627	15,463,627
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>76,583,966</u>	<u>76,583,966</u>
<b>FUND BALANCE</b>					
Restricted	130,697	-	130,697	(130,697)	-
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>130,697</u>	<u>-</u>	<u>130,697</u>	<u>76,453,269</u>	<u>76,583,966</u>
<b>NET POSITION</b>					
Unrestricted					(75,563,662)
<b>TOTAL NET POSITION</b>					<u>(75,563,662)</u>

See accompanying notes to the financial statements

**CITY OF KENT SPECIAL EVENTS CENTER PFD  
GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2013**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Fund Statement</u>	<u>Adjustments (note 2)</u>	<u>Statement of Activities</u>
<b>REVENUES</b>					
Taxes:					
Sales and use tax	714,360	-	714,360		714,360
Miscellaneous revenue:					
Interest income	301	-	301		301
<b>TOTAL REVENUES</b>	<u>714,661</u>	<u>-</u>	<u>714,661</u>	<u>-</u>	<u>714,661</u>
<b>EXPENDITURES/EXPENSES</b>					
Debt service					
Principal	-	730,000	730,000	(730,000)	-
Interest	-	3,082,428	3,082,428	4,667	3,087,095
<b>TOTAL EXPENDITURES/EXPENSES</b>	<u>-</u>	<u>3,812,428</u>	<u>3,812,428</u>	<u>(725,333)</u>	<u>3,087,095</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES</b>	<u>714,661</u>	<u>(3,812,428)</u>	<u>(3,097,767)</u>	<u>725,333</u>	<u>(2,372,434)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Issuance of notes payable		3,104,475	3,104,475	(3,104,475)	
Transfers in	-	707,953	707,953	(707,953)	-
Transfers out	(707,953)	-	(707,953)	707,953	-
<b>TOTAL OTHER FINANCINGS SOURCES (USES)</b>	<u>(707,953)</u>	<u>3,812,428</u>	<u>3,104,475</u>	<u>(3,104,475)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>6,708</u>	<u>-</u>	<u>6,708</u>	<u>(6,708)</u>	
<b>NET CHANGE IN NET POSITION</b>				<u>(2,379,142)</u>	<u>(2,372,434)</u>
<b>FUND BALANCES/NET POSITION</b>					
Beginning of year	123,989	-	123,989		(60,394,797)
Prior Period Adjustment				(12,796,431)	(12,796,431)
End of year	<u>130,697</u>	<u>-</u>	<u>130,697</u>		<u>(75,563,662)</u>

See accompanying notes to the financial statements

**CITY OF KENT SPECIAL EVENTS CENTER PFD**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL**  
**December 31, 2013**

	<b>2013 Budget</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes:				
Sales and use tax	661,870	661,870	714,360	52,490
Miscellaneous revenue:				
Interest income	-	-	301	301
<b>TOTAL REVENUES</b>	<u>661,870</u>	<u>661,870</u>	<u>714,661</u>	<u>52,791</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	661,870	661,870	714,661	52,791
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(3,812,428)	(3,812,428)	(707,953)	3,104,475
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(3,812,428)</u>	<u>(3,812,428)</u>	<u>(707,953)</u>	<u>3,104,475</u>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	(3,150,558)	(3,150,558)	6,708	3,157,266
<b>FUND BALANCES, January 1</b>	123,990	123,990	123,989	(1)
<b>FUND BALANCES, December 31</b>	<u>(3,026,568)</u>	<u>(3,026,568)</u>	<u>130,697</u>	<u>3,157,265</u>

See accompanying notes to the financial statements

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting Entity** - The City of Kent established the Kent Special Events Center Public Facilities District (PFD) in August 2007. The corporation was established pursuant to State legislation and codified under RCW 35.57, with the powers and authority set forth by law. The PFD is established for the sole purpose of pursuing the design, construction, and/or financing of a regional center comprised of a Special Events Center, individually or in cooperation with any other governmental and/or private entities as allowed by law.

On February 29, 2008, the PFD issued bonds in the amount of \$63,280,000. For the fiscal year ended December 31, 2013, the PFD generated \$3,819,136 in revenue and had a deficit net position of \$60,100,035. Per the Interlocal agreement entered into between the City and PFD, monies were remitted to the City to cover the expenditures on the construction of the events center to date.

Based on the criteria of Statement No. 14, as amended by Statement No. 61, of the Government Accounting Standards Board (GASB), "The Financial Reporting Entity", the City has included the PFD in the City's financial statements utilizing the discrete presentation method. The City appoints a voting majority of the PFD board, and the organization presents a potential financial benefit or burden to the City. A copy of the City of Kent's Comprehensive Annual Financial Report is available at the City of Kent located at 220 – 4<sup>th</sup> Avenue South, Kent, WA 98032.

A copy of the City of Kent's Special Events Center Public Facilities District's financial statements is available at the City of Kent located at 220 – 4<sup>th</sup> Avenue South, Kent, WA 98032.

Effective for fiscal year 2013, the District implemented the following new accounting and reporting standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 65 – *Item previously reported as Assets and Liabilities* – This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

The following provides a summary of the City's more significant accounting policies. They are presented to assist the reader in interpreting the financial statements and other data in this report.

### MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The *modified accrual basis* of accounting is used by the PFD. Revenues and other financial resources are recognized when they become susceptible to accrual, i.e., when the related funds become both measurable and available to finance expenditures of the current period. To be considered "available", revenue must be collected during the current period or soon enough thereafter to pay current liabilities. For this purpose, revenue is considered to be available when collected within sixty days after year-end. However, debt service expenditures, and payments for claims and judgments are recorded when due.

Sales taxes and intergovernmental revenues are susceptible for accrual. Investment earnings are accrued when earned. Charges for services, fines and forfeitures, licenses and permits, and other miscellaneous revenues are recorded upon receipt and are not susceptible for accrual. Expenditures are recognized when the related fund liability is incurred. Since the recognition of depreciation does not reduce net financial resources, it is not considered an expenditure. Other exceptions include (1) inventories of materials and prepaid items are reported as expenditures when purchased, (2) interest on long-term debt is not accrued, but is recorded as an expenditure when due.



The PFD reports the following major governmental funds:

**General Fund** - The PFD's General Fund is maintained in the office of the Treasurer separate and distinct from all other funds and accounts for the financial resources of the PFD which are not accounted for in any other fund. Principal sources of revenue are comprised of sales and use tax and interest income. Primary uses are transfers to the PFD's Debt Service Fund to cover its annual debt payment. For so long as the bonds or any additional bonds remain outstanding, all District revenue will be transferred to and deposited in the District General Fund when and as received from the city.

**Debt Service Fund** – The Debt Service Fund is maintained in the office of the Treasurer separate and distinct from all other funds. This fund is used to account for payment of principal and interest of long-term debt. Transfers from the PFD's General Fund along with intergovernmental funds revenue provide the financing sources to cover such debt.

### INTERFUND TRANSFERS

Transfers are required where revenue is generated in one fund and expenditures are paid for in other funds. In the case of the PFD, the interfund transfers which occur are transferred to the debt service fund to cover the annual debt service payments.

A summary of transfers by fund type is as follows:

	Transfers In	Transfers Out
Major Funds		
General Fund	\$ -	\$ 707,953
Debt Service Fund	707,953	-
Total	\$ 707,953	\$ 707,953

## 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

### EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

Included in the Balance Sheet/Statement of Net Position is the reconciliation between *fund balance – total governmental funds and net position – governmental activities* as reported in compliance with GASB Statement No. 34. Those adjusting items can be found in the "Adjustment" column of the Governmental Funds Balance Sheet/Statement of Net Position. Details relating to those adjustments are shown below.

<b>Fund Balance – Total Governmental Funds</b>	\$ 130,697
Amortized issuance discounts, premiums and prepaid bond insurance amounts on refunded debt for governmental bonds:	
Unamortized premium	(950,339)
Prepaid insurance	889,607
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds:	
Sales tax bonds	(59,425,000)
Revenue bonds	(745,000)
<b>Net Position – ending of Governmental Activities</b>	<b>\$ (60,100,035)</b>

#### EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Included in the governmental fund statement of revenues, expenditures, and changes in fund balances/statement of activities is the reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* in compliance with GASB Statement No. 34. Those adjusting items can be found in the “Adjustment” column of the Governmental Fund Revenues Expenditures and Changes in Fund Balances/Statement of Activities. Details relating to those adjustments are shown below.

<b>Net change in Fund Balance – Total Governmental Funds</b>	\$ 6,708
Debt principal payments	730,000
Current year amortization of bond premiums & prepaid insurance	(4,667)
<b>Change in Net Position of Governmental Activities</b>	<b>\$ 732,041</b>

### 3. DEPOSITS AND INVESTMENTS

The deposits and investment practices of the PFD are accounted for with a modified pooled cash arrangement. According to the investment policy presented in the Kent City Code Chapter 3.02, allowable investments consist of the State Treasurer's Investment Pool, banker's acceptances, certificates of deposit, U.S. government securities, and U.S. governmental agency securities.

#### DEPOSITS

The PFD's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) up to \$100,000 and by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC) for amounts over \$100,000.

#### INVESTMENTS

Investments in the State Treasurer's Local Government Investment Pool (LGIP) are valued at amortized cost, which approximates fair value. Certificates of deposits held by the LGIP are valued at historical costs, which also approximate fair value. Each month, earnings from the LGIP are deposited. The State Investment Pool was created by State statute, and is governed by the State Finance Committee and administered by the State Treasurer.

Reconciliation of cash, cash equivalents, deposits and investments to Statement of Net Position:

<b>Special Events Center PFD</b>	
Cash on hand and in bank	\$ 1,686
<b>Total Cash and investments</b>	<b>\$ 1,686</b>

The PFD follows the City of Kent's investment policy.

*Interest Rate Risk.* As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits, to the extent possible, the average life of the portfolio not exceed five years. As of December 31, 2013, the weighted average of maturity for the portfolio was 22 days. The LGIP is an unrated 2a-7 like pool, as defined by GASB Statement No. 31. Accordingly, participants' balances in the LGIP are not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 90 days. As of December 31, 2013, the LGIP had a weighted average maturity of 57 days.

*Credit Risk.* State statute, as well as City policy, requires at the time of purchase that an investment carry a rating of one of the three highest credit ratings of a nationally recognized rating agency. As of December 31, 2013, the ratings for all fixed rate non-callable and callable agency securities were AAA. The LGIP is an unrated 2a-7 like pool. Per GASB Statement No. 40 guidelines, the LGIP balances are not subject to custodial credit risk. The credit risk of the LGIP is limited as most investments are either obligations of the US government, government sponsored enterprises, or insured demand accounts and certificates of deposit.

*Concentration of Credit Risk.* According to the City's investment policy, with the exception of US Treasuries and the LGIP, no more than 25% of the City's total investment portfolio will be invested in securities offered by a single issuer. In accordance with GASB Statement No. 40, the City will report any investment in any one issuer that is 5% or more of the total City portfolio. As of December 31, 2013, the City did not have any investments meeting that criterion.

*Custodial Credit Risk.* All bank deposits are covered 100% by federal depository insurance and pledged collateral on deposit with the Washington State Public Deposit Protection Commission (WSPDPC).

#### 4. RECEIVABLES

The PFD uses the modified accrual basis of accounting. In adopting this basis of accounting, the PFD recognizes revenue by recording various receivables and accrued revenue in its financial statements. The revenue recognition criteria by source is as follows:

##### a. TAXES RECEIVABLE

**Sales and use taxes** are collected by the state and remitted to the PFD on the last day of each month. Sales tax revenue is accrued at year end per GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange transactions." As of December 31, 2013, receivables totaled \$129,011.

#### 5. LONG-TERM INDEBTEDNESS

##### Bonded Debt

In February 2008, the Public Facilities District (PFD) issued Special Events Center Sales Tax Bonds, 2008, of \$53,150,000 and Special Events Center Revenue Bonds, 2008 (Taxable), of \$10,130,000 to finance a portion of the costs of developing the Events Center, capitalizing interest on the Bonds, and

paying costs of issuance for the Bonds.

As of December 31, 2013, the PFD had total net bonded debt outstanding of \$61,120,339. Of this amount, \$54,100,339 or 88.5 percent comprises Sales Tax Bonds, which are secured by a pledge of Sales Tax Revenues (consisting of proceeds of the PFD's sales and use taxes). The remainder of the bonded debt (\$7,020,000 or 11.5 percent) are payable from and secured by a pledge of PFD Revenues received from the City under the terms of the Contingent Loan and Support Agreement. Under the Contingent Loan and Support Agreement, the City has irrevocably pledged its full faith, credit and resources for the making of City Contingent Loan Payments to the PFD as required in order for the PFD to meet their debt service requirements on the bonds, if and to the extent that Sales Tax Revenue and/or Special Events Center revenues are not sufficient for that purpose. The City does not anticipate repayment of the money provided to the PFD per the Contingent Loan and Support Agreement. Therefore, it is not recorded as an asset or liability in the books of the City or PFD. During 2013, the City provided to the PFD, \$3,104,475, for a grand total of \$15,463,627 from 2009 through 2013.

Special Events Center Sales Tax Bonds, 2008, accrue interest at rates from 4.00% to 5.25% depending on maturity dates ranging from December 1, 2020 through December 1, 2037. Interest is payable semiannually on December 1 and June 1. Term Bonds of \$9,290,000 are due December 1, 2028, at 4.75%, \$16,885,000 of Term Bonds are due December 1, 2032, at 5.25%, and \$9,180,000 Term Bonds are due December 1, 2036, at 5.25%.

Special Events Center Revenue Bonds, 2008, accrue interest at rates from 3.159% to 5.754% depending on maturity dates ranging from December 1, 2009 through December 1, 2020.

The following is a summary of long-term bonded debt transactions of the Special Events Center Public Facilities District for the year ended December 31, 2013:

	<b>Outstanding Debt 1/1/13</b>	<b>Debt Retired, Extinguished &amp; Amortized</b>	<b>Outstanding Debt 12/31/13</b>
Sales Tax Bonds	\$ 53,150,000	\$ (6,275,000)	\$ 59,425,000
Plus: Unamortized Premium	990,074	39,735	950,339
Revenue Bonds	7,750,000	7,005,000	745,000
<b>Total Long-term Debt Payable</b>	<b>\$ 60,518,787</b>	<b>\$ (601,552)</b>	<b>\$ 61,120,339</b>

The following is a summary of bonded debt issuance and redemption information as of December 31, 2013:

	<b>Issuance Date</b>	<b>Maturity Date</b>	<b>Interest Rate</b>	<b>Original Amount</b>	<b>Redemption to Date</b>	<b>Outstanding 12/31/13</b>	<b>Due Within One Year</b>
Sales Tax Bonds	2008	2037	4-5.25%	\$ 59,425,000	\$	\$ 59,425,000	\$ -
Plus: Unamortized Premium					(950,339)	950,339	-
Revenue Bonds	2008	2020	3.16-5.75%	10,130,000	9,385,000	745,000	745,000
<b>Total Bonded Debt</b>				<b>\$ 69,555,000</b>	<b>\$ 8,434,661</b>	<b>\$ 61,120,339</b>	<b>\$ 745,000</b>

## Special Events Center Public Facilities District

## Notes to the Financial Statements December 31, 2013

The Special Events Center Public Facilities District's annual debt service requirements to maturity for their sales tax and revenue bonds are as follows:

Special Events Center Public Facilities District			
Year	Principal	Interest	Total
2014	745,000	3,051,060	3,796,060
2015	865,000	3,016,053	3,881,053
2016	980,000	2,973,244	3,953,244
2017	1,100,000	2,921,755	4,021,755
2018	1,250,000	2,862,861	4,112,861
2019-2023	8,760,000	13,154,535	21,914,535
2024-2028	14,220,000	10,479,515	24,699,515
2029-2033	19,520,000	6,192,625	25,712,625
2034-2038	12,730,000	1,663,075	14,393,075
Total	\$ 60,170,000	\$ 46,314,723	\$ 106,484,723

### Notes Payable

The City of Kent (City) and the Kent Special Events Center Public Facilities District (District) entered into a contingent loan and support agreement (the agreement) effective February 20, 2008. Under the agreement, in the event that the District is unable to timely provide for the payment of principal or interest on any bonds, the City shall provide the District the amount necessary to make such timely payment. The City's obligation under the agreement is absolute and unconditional. The full faith, credit and resources of the City are pledged irrevocably for the payments of any District shortfalls on the debt payments. The City paid the District \$3,104,475 under the agreement in 2013. Cumulatively, the City has paid the District \$15,463,627 under the agreement. The agreement terms these payments as loans between the City and the District, payable by the District as District revenues become available for that purpose as defined with Section 4 of the agreement. To date, no repayments have been made on these loans and it is deemed unlikely that future District revenues will be available for this purposes. Therefore, no schedule has been set for the repayment of these loans and the entire balance is classified as long-term on the District's Statement of Net Position.

### Arbitrage Compliance

All arbitrage compliance regulations as per Section 148(f) of the Internal Revenue Service regulations, as amended, of the Internal Revenue Code for the PFD's tax-exempt bonds are current.

## 6. FUND EQUITY/NET POSITION

### Fund Balance

Fund balance presented in the governmental fund financial statements represent the difference between assets and liabilities reported within the governmental fund. Fund balance is classified into the following categories:

**Nonspendable** – items that cannot be spent due to form; inventories, prepaid amounts, long-term loan receivables, or amounts that must be maintained intact legally.

**Restricted** – amounts constrained for specific purposes imposed by external parties. The PFD has \$1,020,304 restricted for debt service as of December 31, 2013.

**Committed** – amounts constrained by the City Council, either through formal budget adoption, contract approvals or for other purposes formally approved by the Council.

**Assigned** – all amounts remaining in governmental funds, other than the general fund, not classified as nonspendable, restricted or committed. Amounts reported as assigned also include year-end encumbrances that have received approval from the city council and re-appropriated in the following year's carry forward budget.

**Unassigned** – any remaining fund balance in the general fund not classified as nonspendable, restricted, committed or assigned.

The PFD considers restricted amounts to have been spent first when expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available. When expenditures of unrestricted fund balance are incurred, the PFD considers committed amounts spent first, then assigned amounts and lastly, unassigned amounts.

#### Net Position

Although the PFD's governmental funds reflected a positive fund balance of \$1,020,304 at December 31, 2013 (restricted for debt service), when adjusted to the district-wide financials presented in accordance with GASB Statement No. 34, the total liabilities exceed the total assets of the PFD resulting in a deficit net position. Per the interlocal agreement with the City of Kent, the PFD was created to finance the construction of the event center and make the debt service payments on the bonds sold to finance that construction. The capital assets, once constructed by the PDF, were turned over to the City, but the PDF retains the long-term debt. Because of this, the PFD's financials will reflect a deficit net position through the life of the bonds, December 2037.

## 7. PRIOR PERIOD ADJUSTMENT

With the implementation of GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*, certain items related to bonded debt are required to be treated differently than in the past. The Statement requires that the accounting changes adopted to conform to the provisions of the statement be applied retroactively, either by restating financial statements for all period presented, or by reporting a restatement of beginning net position or fund balance. The transactions to implement GASB Statement No. 65 and also correct other issues with previous deferred bond costs have been reported as a prior period adjustment to beginning net position in the district-wide financial statements.

As stated in note 6, the City of Kent (City) and the Kent Special Events Center Public Facilities District (District) entered into a contingent loan and support agreement (the agreement). Although the agreement terms the payments from the City to cover District shortfalls on the District bond payments as loans between the City and the District, no repayments have been made on these loans. Previously, the payments have been treated as subsidies from the City to the District. In 2013, the State Auditor's Office determined that the payments from the City must be booked as loans payable from the District. The amounts paid by the City in previous years have been reported as a prior period adjustment to beginning net position in the district-wide financial statements.

Write off of bond issuance costs previously capitalized	\$ 437,279
Restatement of Notes Payable	<u>12,359,152</u>
	\$ 12,796,431

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

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We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
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